

FCA registration number: 213700
Registered number: RS00072S

1ST CLASS CREDIT UNION LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2023



1ST CLASS CREDIT UNION LIMITED

CREDIT UNION INFORMATION

Directors	J Coventry G Green B Devenport J McNicholls T Higgins P Edwards P Kelly P Selby R Hall B Morgan S Raza
Secretary	P Selby
FSA Registration Number	213700
Registered office	Aspire Business Centre 16 Farmeloan Road Rutherglen G73 1DL
Auditor	Xeinadin Audit Limited 2 Hilliards Court Chester Business Park Chester Cheshire CH4 9QP

1ST CLASS CREDIT UNION LIMITED

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1ST CLASS CREDIT UNION LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2023

The directors present their annual report and financial statements for the year ended 30 September 2023.

Principal activities

The principal activity of the Credit Union continued to be that of the provision of savings and lending facilities for the benefit of its members.

Review of business

The directors are satisfied with the results for the year under review. Some financial KPI's are set out in the table below to show the performance of the Credit Union over the trading year.

	2023	2022
Loan interest receivable	1,198,476	£1,111,431
Loss after taxation	£(109,960)	£(141,396)
Capital asset ratio	10.30%	9.70%
Liquidity	21.00%	34.00%

Reserves amount to £2,076,721 (2022 - £2,186,681). The directors are confident that the Credit Union has sufficient reserves to finance the anticipated levels of activity in the future.

Dividends

The proposed dividend for the year ended 30 September 2023 is £142,434.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

J Coventry
G Green
B Devenport
J McNicholls
T Higgins
P Edwards
P Kelly
P Selby
R Hall
B Morgan
S Raza

Compliance statement

The Credit Union is required to maintain and test a single customer view (SCV) file for submission to the FSCS in the event that the Credit Union is wound up. The directors confirm that SCV records have been tested and comply with regulatory authority depositor protection rules.

The directors also confirm the following as required by Section 10.1 of the PRA Credit Union Rulebook:

- the Credit Union carried out lending activity within the PRA Credit Union Rulebook and we can confirm that we meet the requirements for carrying out this activity.
- the Credit Union had sufficient fidelity bond insurance throughout the year.

Auditor

Xeinadin Audit Limited were appointed as auditor to the Credit Union and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

1ST CLASS CREDIT UNION LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2023

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Credit Union law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Credit Union law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Credit Union and of the surplus or deficit of the Credit Union for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Credit Union will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Credit Union's transactions and disclose with reasonable accuracy at any time the financial position of the Credit Union and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014. They are also responsible for safeguarding the assets of the Credit Union and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the Credit Union's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the Credit Union's auditor is aware of that information.

On behalf of the board

P Selby
Director

26 February 2024

1ST CLASS CREDIT UNION LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF 1ST CLASS CREDIT UNION LIMITED

Opinion

We have audited the financial statements of 1st Class Credit Union Limited (the 'Credit Union') for the year ended 30 September 2023 which comprise the revenue account, the balance sheet, the statement of changes in reserves and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Credit Union's affairs as at 30 September 2023 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Credit Union's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Co-operative and Community Benefit Societies Act 2014

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

1ST CLASS CREDIT UNION LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF 1ST CLASS CREDIT UNION LIMITED

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Credit Union and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

We have nothing to report in respect of the following matters in relation to which the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the Credit Union's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Credit Union or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.

1ST CLASS CREDIT UNION LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF 1ST CLASS CREDIT UNION LIMITED

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Credit Union to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Credit Union audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Credit Union's members, as a body, in accordance with Section 87, Part 7 of Chapter 14 of the Co-Operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Credit Union's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Credit Union and the Credit Union's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephanie Baker BA(Hons) ACA
Senior Statutory Auditor
Xeinadin Audit Limited

26 February 2024

Chartered Accountants
Statutory Auditors

2 Hilliards Court
Chester Business Park
Chester
Cheshire
CH4 9QP

1ST CLASS CREDIT UNION LIMITED

REVENUE ACCOUNT

FOR THE YEAR ENDED 30 SEPTEMBER 2023

		2023 £	2022 £
Loan interest receivable and similar income	3	1,275,150	1,182,236
Interest payable	4	-	(167,794)
Net interest income		<u>1,275,150</u>	<u>1,014,442</u>
Fees and commissions receivable	5	54,823	41,804
Fees and commissions payable		(21,713)	(9,661)
Net fees and commissions receivable		<u>33,110</u>	<u>32,143</u>
Other income	6	194,251	293,887
Administrative expenses	7	(1,083,897)	(1,090,772)
Depreciation and amortisation	16	(2,285)	(11,047)
Other operating expenses	8	(159,185)	(153,529)
Impairment losses on loans to members	15	(325,041)	(213,067)
Total expenditure		<u>(1,376,157)</u>	<u>(1,174,528)</u>
Surplus/(Deficit) before taxation		(67,897)	(127,943)
Taxation	11	(42,063)	(13,453)
Surplus/(Deficit) for the financial year		<u>(109,960)</u>	<u>(141,396)</u>
Other comprehensive income		-	-
Total comprehensive income		<u><u>(109,960)</u></u>	<u><u>(141,396)</u></u>

The revenue account has been prepared on the basis that all operations are continuing operations.

1ST CLASS CREDIT UNION LIMITED

BALANCE SHEET

AS AT 30 SEPTEMBER 2023

	Notes	£	2023	£	£	2022	£
Assets							
Cash, cash equivalents and liquid deposits							
Loans and advances to banks	12		1,350,167			4,819,463	
Loans and advances to members	13		12,985,896			12,190,134	
Tangible fixed assets	16		5,647			199,868	
Other long term investments	17		5,750,000			5,250,000	
Prepayments and accrued income			78,745			58,694	
Total assets			20,170,455			22,518,159	
Liabilities							
Subscribed capital - repayable on demand	18		17,912,592			20,187,426	
Other payables	19		181,142			144,052	
			18,093,734			20,331,478	
Retained earnings							
Distribution Reserve			142,434			24,343	
Revenue Reserve			-			391,068	
Credit Union Foundation Reserve			-			100,000	
Income and expenditure reserve			1,934,287			1,671,270	
			2,076,721			2,186,681	
Total liabilities			20,170,455			22,518,159	

The financial statements were approved by the board of directors and authorised for issue on 26 February 2024 and are signed on its behalf by:

J Coventry
Director

B Devenport
Director

P Selby
Director

1ST CLASS CREDIT UNION LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2023

	Revenue Reserve	Credit Union Foundation Reserve	Distribution Reserve	Income and Expenditure Reserve	Total
Notes	£	£	£	£	£
Balance at 1 October 2021	391,068	100,000	171,283	1,665,726	2,328,077
Year ended 30 September 2022:					
Surplus/(Deficit) for the year pre dividend	-	-	-	26,398	26,398
Dividends 4	-	-	-	(167,794)	(167,794)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Surplus for the year post dividend	-	-	-	(141,396)	(141,396)
Transfers	-	-	(146,940)	146,940	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 September 2022	391,068	100,000	24,343	1,671,270	2,186,681
Year ended 30 September 2023:					
Surplus/(Deficit) for the year pre dividend	-	-	-	(109,960)	(109,960)
Transfers	(391,068)	(100,000)	118,091	372,977	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 September 2023	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

1ST CLASS CREDIT UNION LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2023

	Notes	2023 £	£	2022 £	£
Cash flows from operating activities					
Cash absorbed by operations	27	(924,383)		(402,693)	
Interest paid		54,823		41,804	
Income taxes paid		(13,453)		(4,041)	
Net cash outflow from operating activities		(883,013)		(364,930)	
Investing activities					
Proceeds from disposal of tangible fixed assets		188,551		-	
Net cash generated from/(used in) investing activities		188,551		-	
Financing activities					
Purchase of investments		(500,000)		(3,275,750)	
Amount introduced by members		12,230,957		17,849,942	
Amount withdrawn by members		(14,505,791)		(17,855,003)	
Dividends paid		-		(167,794)	
Net cash used in financing activities		(2,774,834)		(3,448,605)	
Net decrease in cash and cash equivalents		(3,469,296)		(3,813,535)	
Cash and cash equivalents at beginning of year		4,819,463		8,632,998	
Cash and cash equivalents at end of year		1,350,167		4,819,463	

1ST CLASS CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2023

1 Accounting policies

Credit Union information

The registered office for 1st Class Credit Union is Aspire Business Centre, 16 Farmeloan Road, Rutherglen, G73 1DL.

Legal and regulatory framework

1st Class Credit Union is a society established under the Industrial and Provident Societies Act 1965, whose principal activity is to operate as a Credit Union, within the meaning of the Credit Unions Act 1979. The Credit Union has registered with the Financial Conduct Authority and is regulated by the Prudential Regulation Authority under the provisions of the Financial Services and Markets Act 2000.

In accordance with the regulatory environment for Credit Union's, deposits from members can be made by subscription for redeemable shares, deferred shares and interest-bearing shares. At present the Credit Union has only issued redeemable shares.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the Credit Union. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain financial instruments at fair value. The principal accounting policies adopted are set out below.

1.2 Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the Credit Union has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

1.3 Income

Loan interest receivable and similar income: interest on both loans to members and loans to banks (i.e. cash and cash equivalents held on deposit with other financial institutions) is recognised at fair value using effective interest method, and is calculated and accrued on a daily basis.

Where the loan interest rate for members loans has been reduced to zero, the Credit Union does not account for any loan interest on these loans, as the Credit Union will not seek to recover this loan interest. This policy does not meet with the requirements of FRS102. However, as a result of the policy, there is not net effect on the surplus or deficit for the year nor net assets of the Credit Union as an equal or opposite impairment provision would be required should this loan interest be included.

Fees and commissions receivable: Fees and charges either arise in connection with a specific transaction, or accrue evenly over the year. Income relating to individual transactions is recognised when the transaction is completed.

1ST CLASS CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2023

1 Accounting policies

(Continued)

The accounting treatment of grants received are determined by the grant conditions and the reasons why the grant was applied for to determine whether they are treated as capital or revenue in nature.

Grants of capital nature are reflected as deferred income in the balance sheet and released to the revenue account over the estimated useful life of the assets to which they relate. Grants which are considered to be revenue are credited to the revenue account in the period to which they relate.

The accounting treatment of grants with no conditions attached are reviewed by the directors to determine if the financial statements would be misleading, and therefore not provide a true and fair view, by releasing the grant received directly to revenue and whether it would be more appropriate to treat the grant as capital in nature. Where this happens, the treatment of the grant does not meet the requirements on FRS102 had in the prior financial year was to increase the net surplus for the year by £266,667.

1.4 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Freehold land and buildings	2% & 10% straight line
Fixtures and fittings	10% straight line
Computers	25% straight line

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

Land value within freehold property was not depreciated and subsequently disposed of during the year.

1.5 Impairment of fixed assets

At each reporting period end date, the Credit Union reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1ST CLASS CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2023

1 Accounting policies

(Continued)

Current asset investments

Investments held as current assets are valued at fair value. Any gain or loss on revaluation is recognised in the revenue account.

1.6 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less.

1.7 Financial instruments

The Credit Union has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the Credit Union's balance sheet when the Credit Union becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include loans to members and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Financial assets - loans and advances to members

Loans to members are financial assets with fixed to determinable payments, and are not quoted in active market. Loans are recognised when cash is advanced to members and measured at amortised cost using the effective interest method.

Loans are derecognised when the right to receive cash flows from the asset have expired, usually when all amounts outstanding have been repaid by the member. The Credit Union does not transfer loans to third parties.

Impairment of financial assets

The Credit Union assesses, at each balance sheet date, if there is objective evidence that any of its loans to members are impaired. The loans are assessed collectively in groups that share similar credit risk characteristics, because no loans are individually significant. In addition, if, during the course of the year, there is objective evidence that any individual loan is impaired, a specific loss will be recognised.

Any impairment losses are recognised in the revenue account, as the difference between the carrying value of the loan and the net present value of the expected cash flows.

The provision for doubtful debts is made in accordance with guidance issued by the Prudential Regulation Authority (PRA)/Financial Conduct Authority (FCA).

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Credit Union after deducting all of its liabilities.

1ST CLASS CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2023

1 Accounting policies

(Continued)

Basic financial liabilities

Basic financial liabilities, including subscribed capital and other payables are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Financial liabilities - subscribed capital

Members' shareholdings in the Credit Union are redeemable and described as members shares - repayable on demand. They are initially recognised at the amount of cash deposited and subsequently measured at initial deposit plus any dividend applicable to the members account.

1.8 Equity instruments

Equity instruments issued by the Credit Union are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the Credit Union.

1.9 Taxation

The tax charge for the year reflects current tax payable.

Current tax is the expected corporation tax payable for the year, using tax rates in force for the year. The Credit Union is not liable to corporation tax payable on its activities of making loans to members, and investing surplus funds, as these are not classified as a trade. However, corporation tax is payable on investment income.

As a result of the limited activities of the Credit Union from which surpluses are chargeable to corporation tax, it is unlikely that deferred tax will arise.

1.10 Employee benefits

Defined contributions plans: The amounts charged as expenditure for the defined contribution plan are the contributions payable by the Credit Union for the relevant period.

Other employee benefits: Other short and long term employee benefits, including holiday pay, are recognised as an expense over the period they are earned.

1.11 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

1.12 Reserves

Retained earnings are the accumulated surpluses to date that have not been declared as dividends returnable to members.

1ST CLASS CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2023

2 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires the use of certain accounting estimates. It also requires the directors to exercise judgement in applying Credit Union's accounting policies.

The areas requiring a higher degree of judgement, or complexity, and areas where assumptions or estimates are most significant to the financial statements, are disclosed below:

Impairment losses and provisions

Impairment losses on loans to members are provided in accordance with the guidelines issued by the Prudential Regulation Authority. Any impairment losses are recognised in the revenue account as the difference between the carrying value of the loan and the net present value of the expected cash flows.

The credit union assesses, at each balance sheet date, if there is objective evidence that any of its loans to members are impaired. The loans are assessed collectively in groups that share similar credit risk characteristics, because no loans are individually significant. In addition, if during the course of the year there is objective evidence that any individual loan is impaired, a specific loss will be recognised.

Impaired losses written off and recovered

In accordance with FRS102, the policy of the Credit Union and the requirements of the standard for impaired losses written off differ. The Credit Union write off impaired loans when all methods of the recovery have been exhausted. Therefore, the impaired losses written off in the financial statements do not meet the requirements of FRS102. As a result of the above there is no net effect on the surplus or net assets of the Credit Union.

3 Loan interest receivable and similar income

	2023	2022
	£	£
Loan interest receivable from members	1,198,476	1,111,431
Bank interest receivable on cash and liquid deposits	76,674	70,805
	<u>1,275,150</u>	<u>1,182,236</u>

4 Interest expense

Interest expense is the dividend paid to members for the prior year. The dividend is formally proposed by the Directors after the year end and is confirmed at the following AGM. As a result it does not represent a liability at the balance sheet date. The proposed dividend for the year ended 30 September 2023 is £142,434.

	2023	2022
	£	£
Interest paid during the year	<u>-</u>	<u>167,794</u>
Dividend rate:		
Shares up to £1,500	0.00%	1.50%
Shares over £1,500	0.00%	0.50%
Interest proposed but not recognised	<u>142,434</u>	<u>-</u>
Dividend rate	0.75%	0.00%

1ST CLASS CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2023

5 Fees and commissions receivable

	2023 £	2022 £
Entrance fees	51,028	37,199
Dormant fees	3,795	4,606
Total fees and commission receivable	<u>54,823</u>	<u>41,804</u>

6 Other income

	2023 £	2022 £
Grant income	-	266,667
Sundry income	1,862	1,470
Profit on disposal of freehold property	76,014	-
Income from investments	116,375	25,750
Total other income	<u>194,251</u>	<u>293,887</u>

7 Administrative expenses

	2023 £	2022 £
Employment costs	599,444	504,318
Staff training and expenses	14,326	12,710
Directors expenses	25,771	26,332
Auditors remuneration	6,250	6,240
Telephone	23,481	19,297
Computer maintenance	106,532	338,005
Legal and professional	160,332	56,069
General expenses	18,300	20,039
Printing, postage and stationery	42,966	25,273
Marketing and advertising	72,718	48,141
Travel expenses	10,393	34,348
Loss on disposal of tangible fixed assets	3,385	-
	<u>1,083,897</u>	<u>1,090,772</u>

1ST CLASS CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2023

8 Other operating expenses

Other operating expenses comprise the costs of occupying offices and regulatory and financial management costs:

	2023	2022
	£	£
Cost of occupying the offices (excluding depreciation)		
Rent and rates	6,923	600
Repairs and maintenance	3,760	5,542
Power, light and heat	19,044	14,246
	<u>29,727</u>	<u>20,388</u>
Regulatory and financial management costs		
Financial Conduct Authority and Prudential Regulation Authority fees	3,901	7,763
Association of British Credit Union dues	14,982	10,827
Fidelity bond insurance	8,722	8,722
Loan protection and life savings insurance	-	-
Other insurances	101,897	105,829
	<u>129,502</u>	<u>133,142</u>
	<u>159,228</u>	<u>153,529</u>

9 Employees

The average monthly number of persons (including directors) employed by the Credit Union during the year was:

	2023	2022
	Number	Number
	22	16
	<u>22</u>	<u>16</u>

Their aggregate remuneration comprised:

	2023	2022
	£	£
Wages and salaries	528,525	446,729
Social security costs	42,608	39,101
Pension costs	28,311	18,488
	<u>599,444</u>	<u>504,318</u>

1ST CLASS CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2023

10 Retirement benefit schemes

	2023	2022
	£	£
Defined contribution schemes		
Charge to revenue account in respect of defined contribution schemes	28,311	18,488

The Credit Union operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the Credit Union in an independently administered fund.

11 Taxation

	2023	2022
	£	£
Current tax		
UK corporation tax on surplus for the current period	42,063	13,453

The actual charge for the year can be reconciled to the expected (credit)/charge for the year based on the surplus and deficit and the standard rate of tax as follows:

	2023	2022
	£	£
(Deficit)/Surplus before taxation	(67,897)	(127,943)
Expected tax (credit)/charge based on the standard rate of corporation tax in the UK of 22.01% (2022: 19.00%)	(14,944)	7,572
Non-taxation surplus/(deficit) on transactions with members	57,007	5,881
Taxation charge for the year	42,063	13,453

12 Cash, cash equivalents and liquid deposits

	2023	2022
	£	£
Loans and advances to banks	896,172	2,840,432
Short-term deposits	453,995	1,979,031
	1,350,167	4,819,463

1ST CLASS CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2023

13 Loans and advances to members

	2023	2022
	£	£
As at 1 October 2021	13,134,224	12,870,369
Advanced during the year	8,589,839	7,695,287
Interest on members loans	1,198,474	1,094,251
Repaid during the year	(8,411,452)	(8,264,979)
Impaired loans written off	810,868	(260,704)
	<hr/>	<hr/>
Gross loans and advances to members	13,700,217	13,134,224
Impairment losses		
Groups of financial assets	(714,321)	(944,090)
	<hr/>	<hr/>
As at 30 September 2022	<u>12,985,896</u>	<u>12,190,134</u>

1ST CLASS CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2023

14 Credit risk disclosure

The Credit Union does not offer mortgages and as a result all loans to members are unsecured, except that there are restrictions on the extent to which borrowers may withdraw their savings whilst loans are outstanding.

The carrying amount of the loans to members represents the Credit Unions maximum exposure to credit risk. The following table provides information on the credit quality of loan repayments. Where loans are not impaired it is expected that the amounts repayable will be received in full.

	2023 Amount £	2023 Proportion %	2022 Amount £	2022 Proportion %
Not impaired:				
Neither past due not impaired	11,874,782	86.68%	11,093,732	84.46%
Up to 3 months past due	796,433	5.81%	1,161,692	8.84%
Between 3 and 6 months past due	-	-	-	-
Between 6 and 12 months past due	-	-	-	-
Over 12 months past due	-	-	-	-
Loans not impaired	<u>12,671,215</u>	<u>92.49%</u>	<u>12,255,424</u>	<u>93.31%</u>
Groups of financial assets impaired:				
Not yet past due, but impaired	-	-	-	-
Up to 3 months past due	252,652	1.84%	152,393	1.16%
Between 3 and 6 months past due	227,992	1.66%	72,247	0.55%
Between 6 and 12 months past due	189,574	1.38%	93,579	0.71%
Over 12 months past due	358,784	2.62%	560,581	4.27%
Total loans	<u>13,700,217</u>	<u>100.00%</u>	<u>13,134,224</u>	<u>100.00%</u>
Impairment allowance	(714,321)		(944,090)	
Total carrying value	<u>12,985,896</u>		<u>12,190,134</u>	

15 Impairment losses recognised for the year

	2023 £	2022 £
Impairment of individual financial assets	614,578	260,704
Increase in impairment allowance during the year	(229,769)	(20,091)
	<u>384,809</u>	<u>240,613</u>
Reversal of impairment where debts recovered	(59,768)	(27,546)
Total impairment losses recognised for the year	<u>325,041</u>	<u>213,067</u>

1ST CLASS CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2023

16 Tangible fixed assets

	Freehold land and buildings	Fixtures and fittings	Computers	Total
	£	£	£	£
Cost				
At 1 October 2022	233,209	73,516	78,359	385,084
Disposals	(233,209)	(66,736)	(64,107)	(364,052)
At 30 September 2023	-	6,780	14,252	21,032
Depreciation and impairment				
At 1 October 2022	44,658	65,413	75,145	185,216
Depreciation charged in the year	-	678	1,607	2,285
Eliminated in respect of disposals	(44,658)	(63,351)	(64,107)	(172,116)
At 30 September 2023	-	2,740	12,645	15,385
Carrying amount				
At 30 September 2023	-	4,040	1,607	5,647
At 30 September 2022	188,551	8,103	3,214	199,868

17 Other long term investments

	2023	2022
	£	£
Securities	5,750,000	5,250,000

18 Subscribed capital - repayable on demand

	2023	2022
	£	£
Members' shares brought forward	20,187,426	20,192,487
Share deposits during the year	12,230,957	17,849,942
Share withdrawals during the year	(14,505,791)	(17,855,003)
	17,912,592	20,187,426

19 Other payables

	2023	2022
	£	£
Juvenile deposits	112,780	100,527
Corporation tax	42,063	13,453
Accruals and deferred income	26,299	30,072
	181,142	144,052

1ST CLASS CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2023

20 Financial risk management

The Credit Union manages its subscribed capital and loans to members so that it earns income from the margin between interest receivable and interest payable/dividends payable.

The main financial risks arising from the Credit Union activities are credit risk, liquidity risk, market risk and interest rate risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below.

Credit risk: Credit risk is the risk that a borrower will default on their contractual obligations relating to repayments to the Credit Union, resulting in financial loss to the Credit Union. In order to manage this risk the Board approves the Credit Union's lending policy, and all changes to it. All loan applications are assessed with reference to the lending policy in force at the time. Subsequently loans are regularly reviewed for any factors that may indicate that the likelihood of repayment has changed. There is also a risk that the Credit Union's surplus cash held as deposits may be lost due to financial institution failure. The Credit Union mitigates this risk by holding deposits in a range of financial institutions and undertaking regular due diligence on the financial stability of these institutions.

Liquidity risk: The Credit Union's policy is to maintain sufficient funds in liquid form at all times to ensure that it can meet its liabilities as they fall due. The objective of the Credit Union's liquidity policy is to smooth the mismatches between maturing assets and liabilities and to provide a degree of protection against any unexpected developments that may arise.

Market risk: Market risk is generally comprised of interest rate risk, currency risk and other price risk. The Credit Union conducts all its transactions in sterling and does not deal in derivatives or commodity markets. Therefore the Credit Union is not exposed to any form of currency risk or other price risk.

Interest rate risk: The Credit Union's main interest rate risk arises from differences between the interest rate exposures on the receivables and payables that form an integral part of a Credit Union's operations. The Credit Union considers rates of interest receivable when deciding on the dividend rate payable on subscribed capital. The Credit Union does not use interest rate options to hedge its own positions.

21 Interest rate risks

The following table shows the average interest rates applicable to relevant financial assets and financial liabilities:

	2023 Amount	2023 Average Interest Rate	2022 Amount	2022 Average Interest Rate
Financial Assets				
Loans to members	£13,700,216	11.54%	£13,334,224	8.03%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Financial Liabilities				
Subscribed capital				
Members' shares	£17,912,592	-	£20,187,425	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The interest rates applicable to loans to members are fixed and range from 4.7% to 30%.

The interest payable on subscribed capital is determined on the basis of income less administrative expenses and, as can be seen above, a consistent margin is maintained between interest receivable and interest payable. As a result, the surplus for the year is not particularly sensitive to interest rate risk and no sensitivity analysis is presented.

1ST CLASS CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2023

22 Liquidity risk

Excluding short-term other payables, as noted in the balance sheet. First Class Credit Union's financial liabilities, the subscribed share capital, are repayable on demand.

23 Fair value of financial instruments

First Class Credit Union does not hold any financial instruments at fair value.

24 Contingent liabilities

The Credit Union participates in the Financial Services Compensation Scheme (FSCS) and therefore has a contingent liability, which cannot be quantified, in respect of contributions to the FSCS, as required by the Financial Services and Markets Act 2000. The Financial Conduct Authority (FCA) had provided details of how the calculation of next years contribution towards the FSCS will be calculated and provision where necessary had been included for this liability, However, this is subject to future changes in interest rates and levels of deposits held by deposit takers. Therefore, there is inherent uncertainty regarding the totality of the levy that the Credit Union will have to pay.

25 Operating lease commitments

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2023	2022
	£	£
Within one year	13,862	-
Between two and five years	53,798	-
	<u>67,660</u>	<u>-</u>

26 Related party transactions

During the year 11 members (2022: 8) of the board, staff and their close family members had loans with the Credit Union. These loans were approved on the same basis as loans to other members of the Credit Union. None of the directors, staff or their close family members, have any preferential terms on their loans.

1ST CLASS CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2023

27 Cash absorbed by operations

	2023	2022
	£	£
(Loss)/profit for the year after tax	(109,960)	26,398
Adjustments for:		
Taxation charged	42,063	13,453
Finance costs	(54,823)	(41,804)
Loss on disposal of tangible fixed assets	3,385	-
Depreciation and impairment of tangible fixed assets	2,285	11,047
Movements in working capital:		
Increase in debtors	(815,813)	(171,659)
Increase/(decrease) in creditors	8,480	(240,128)
Cash absorbed by operations	<u>(924,383)</u>	<u>(402,693)</u>

28 Analysis of changes in net funds

	1 October	Cash flows 30 September	
	2022		2023
	£	£	£
Cash at bank and in hand	<u>4,819,463</u>	<u>(3,469,296)</u>	<u>1,350,167</u>